25 June 2018

FX Strategy

FX talkING

Stiffening headwinds

Global growth prospects are being curtailed by President Trump's protectionism and a strong dollar exporting tighter Fed policy around the world. These trends look set to continue over coming months – or at least as long as Trump policies play well in approval ratings.

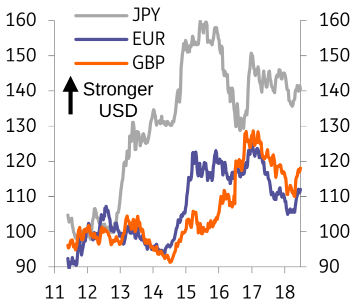
EUR/USD looks set to stay vulnerable this summer, hit by the triple whammy of: (i) growing protectionism hitting the more open European economies, (ii) further Fed tightening and (iii) political challenges in Germany and Italy. EUR/USD is cheap near 1.15 and our year-end forecast of 1.23 assumes that trade tensions de-escalate and the ECB ends QE in December. However EUR/USD risks look skewed to the downside.

Elsewhere in Europe, GBP and NOK could receive a little support from rate hikes over coming months. SEK will be the clear under-performer, hurt by protectionism and the proximity of September elections, where a referendum on EU membership is a tail risk.

Within CE4, the HUF has been and will continue under pressure as investors stress-test the dovishness of the local central bank. The PLN should continue to find demand helped by good prospects for the local bond market and Poland's diversified export base.

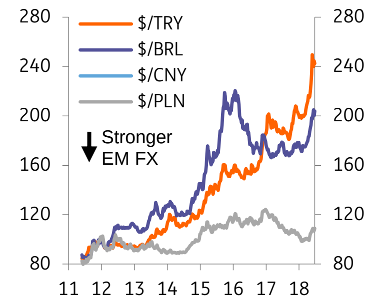
Asian FX has been hit hard by protectionism and there are substantial upwards revisions to our USD/Asia forecasts – especially USD/KRW. Election risks remain to the fore in Latam, but we suspect investors will be keen to buy into MXN dips. BRL looks more fragile

USD/Majors (30 Jan 09=100)



Source: Reuters, ING

USD/EM (30 Jan 09=100)



Source: Reuters, ING

ING FX forecasts

	EUR/USD		USD/JPY		GBP/USD	
1M	1.17	>	109	=	1.33	>
3M	1.17	=	107	<	1.33	=
6M	1.23	>	105	<	1.43	>
12M	1.30	>	103	<	1.57	>
	EUR/GBP		**EUR/CZK**		**EUR/PLN**	
1M	0.88	=	25.50	>	4.30	<
3M	0.88	=	25.30	>	4.23	<
6M	0.86	<	25.20	>	4.20	<
12M	0.83	<	24.80	<	4.15	<
	USD/CNY		**USD/MXN**		**USD/BRL**	
1M	6.50	=	20.00	<	3.80	>
3M	6.55	>	19.80	<	4.20	>
6M	6.60	>	19.20	<	3.80	=
12M	6.55	<	18.80	<	3.60	<

> / = / < indicates our forecast for the currency pair is above/in line with/below the corresponding market forward or NDF outright

Source: Bloomberg, ING

FX performance

	EUR/USD	USD/JPY	EUR/GBP	EUR/NOK	NZD/USD	USD/CAD
%MoM	-1.1	-0.6	0.4	-0.8	0.0	3.3
%YoY	4.4	-1.7	0.0	-0.3	-4.7	0.2
	USD/UAH	**USD/KZT**	**USD/BRL**	**USD/ARS**	**USD/CNY**	**USD/TRY**
%MoM	0.0	3.5	3.0	10.5	2.4	0.3
%YoY	0.2	5.2	14.1	67.1	-4.4	30.3

Source: Bloomberg, ING

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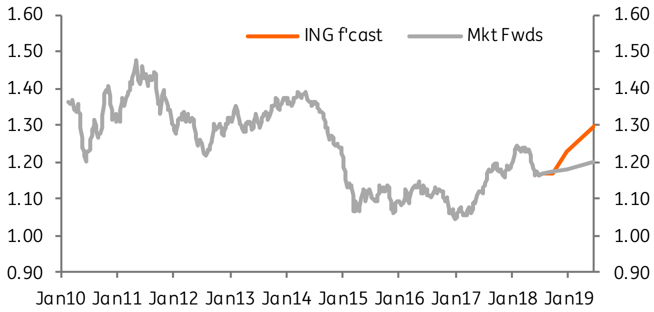
Developed markets

EUR/USD

Auto travails

Current spot: 1.16



Source: Bloomberg, ING

- Trump's trade war has had a disproportionately large impact on the more trade-sensitive economies, such as those in Europe. As we go press, Trump is responding to retaliatory EU tariffs with threats to slap 20% duties on auto imports from the EU. If this escalates, confidence in Europe will be depressed even further making a 2H18 recovery even less likely.
- All this comes at a time when the Fed is looking far more domestically-driven & expecting another 50bp of hikes this year.
- Our baseline assumes that Trump cuts trade deals before mid-term elections in November and the ECB ends QE in December. A serious threat of auto tariffs being introduced would hit EUR hard.

ING forecasts (mkt fwd)	**1M** 1.17 (1.167)	**3M** 1.17 (1.1721.17)	**6M** 1.23 (1.181)	**12M** 1.30 (1.200)

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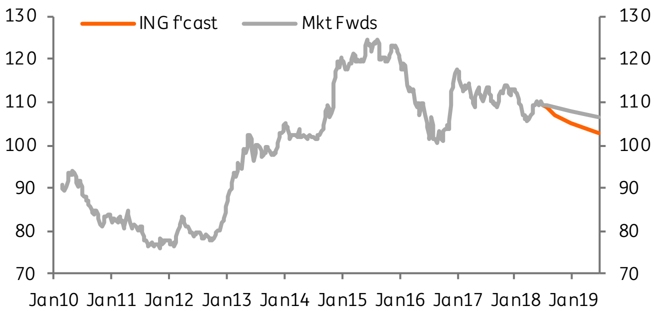
USD/JPY

Buy-side turning more bullish on the dollar

Current spot: 109.48



Source: Bloomberg, ING

- There is a growing school of thought that the US mix of loose fiscal and tight monetary policy will drive a multi-year dollar rally. This will be reminiscent of the Reagan dollar bubble, which eventually was burst with the Plaza Accord of 1985. But are we only in 1983 today? That's the challenge. We tend to think that US rate spreads will peak later this year and that recoveries in major trading partners can draw the sting out of the USD rally.
- If we're wrong and US rates push a lot higher still – probably with an inverted curve, we could potentially see $/JPY at 115, but Trump's trade risk premium should see JPY in demand on crosses
- Sep 20th LDP election and risks of Abe departure is JPY positive.

ING forecasts (mkt fwd)	**1M** 109.00 (109.2)	**3M** 107.00 (108.8)	**6M** 105.00 (108.0)	**12M** 103.00 (106.3)

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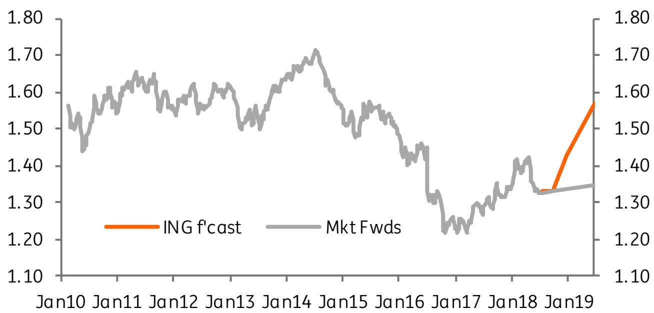
GBP/USD

BoE August rate hike may only provide fleeting support

Current spot: 1.32



Source: Bloomberg, ING

- GBP has succumbed to the broadly stronger dollar and only found limited support from the prospect of a BoE rate hike in August. Given substantial Brexit uncertainty, any BoE rate move would likely be a one-off and thus not a game-changer.
- It increasingly looks like the UK government is so ill-prepared for Brexit that major concessions will have to be made to Brussels. Whilst a softer Brexit may be seen as slightly GBP positive, an upheaval in the UK cabinet and major political uncertainty looks likely. Thus it's hard to see EUR/GBP straying too far from 0.88.
- Our bullish Cable views thus largely hang on a EUR/USD rebound – but downside risks remains very present over next 3-6 months.

ING forecasts (mkt fwd)	**1M** 1.33 (1.33)	**3M** 1.33 (1.33)	**6M** 1.43 (1.34)	**12M** 1.57 (1.35)

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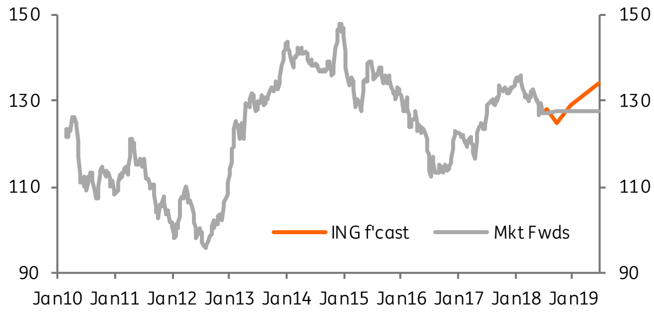
EUR/JPY

Downside risks this summer **Current spot: 127.4**



Source: Bloomberg, ING

- US equity markets have held up well in spite of growing global trade tensions. However, there has been a notable under-performance of the more domestic Russell 2000 index by the more international S&P 500. Were auto imports from the EU to be subject to tariffs, we think equities would turn decisively lower.
- The nature of this shock would also be a clean EUR negative, thus presenting EUR/JPY as a speculative short this summer.
- Helping EUR/JPY recently may have been Japanese demand for higher yielding Eurozone debt – with many fund managers believing the Italian sell-off is a buying opportunity. But we have a tough time seeing many upside risks to EUR/JPY this summer.

ING forecasts (mkt fwd)	**1M** 128.00 (127)	**3M** 125.00 (127)	**6M** 129.00 (128)	**12M** 134.00 (128)

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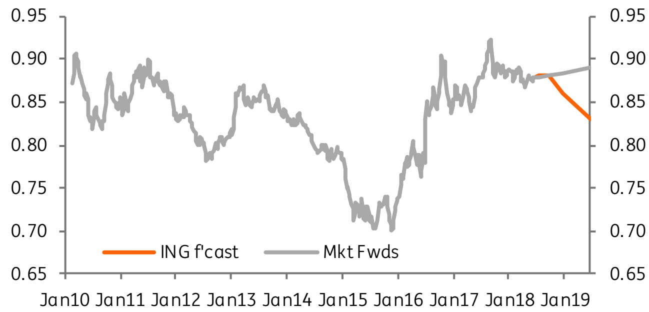
EUR/GBP

Cabinet re-shuffle later this year? **Current spot: 0.88**



Source: Bloomberg, ING

- It looks as though UK PM May is going to have to accept the terms dictated by Brussels – which may prompt resignations from some of the most prominent Brexiteers. The backlash from the Brexiteers in the UK press may drown out any GBP positives from a softer Brexit path. Also the threat of a leadership change or even early elections could begin to stir as well.
- EUR/GBP has been trading such a tight range for such a long time that we need to monitor any potential break-outs closely. A move outside the 0.8715-0.8825 range could be explosive.
- GBP has struggled to take advantage of EUR weakness on Italy politics/dovish ECB - which suggests underlying GBP weakness.

ING forecasts (mkt fwd)	**1M** 0.88 (0.88)	**3M** 0.88 (0.88)	**6M** 0.86 (0.88)	**12M** 0.83 (0.89)

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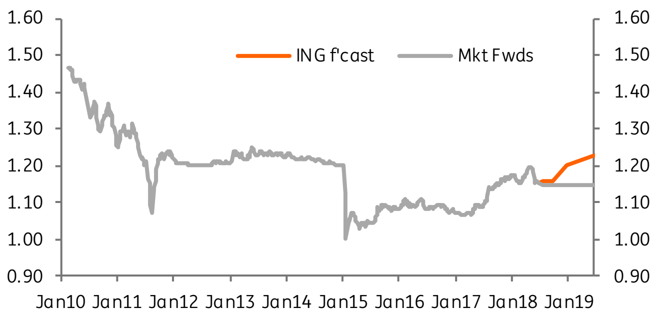
EUR/CHF

Rally delayed **Current spot: 1.15**



Source: Bloomberg, ING

- Italian political stress showed how fragile the EUR/CHF rally was and has knocked some of the confidence out of EUR bulls like ourselves. Our debt team feel that the BTP-Bund spread will continue to trade in a 200-300bp range for the foreseeable future – meaning that EUR/CHF is pinned to the 1.15-1.17 area.
- The SNB recently cut its 2020 inflation forecast, and has said there's less reason to adjust policy. We could never understand why some banks felt the SNB could hike in 1Q19. Expect the SNB to hike well after the ECB – potentially not until 2020.
- FX intervention remains part of SNB toolkit, thus we see EUR/CHF downside limited and temporary below the 1.15 area.

ING forecasts (mkt fwd)	**1M** 1.16 (1.15)	**3M** 1.16 (1.15)	**6M** 1.20 (1.15)	**12M** 1.23 (1.15)

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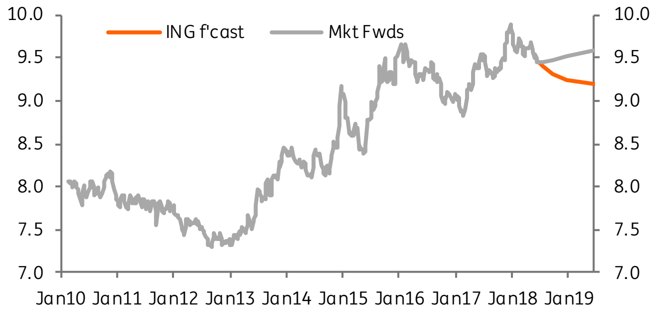
EUR/NOK

Norges Bank decoupling from the ECB is positive for NOK **Current spot: 9.45**



Source: Bloomberg, ING

- The NB stance is very supportive of NOK as it continues to decouple from the dovish ECB. The likely NB hike in September and the "live" probability of a December hike should keep downside pressure on EUR/NOK.
- If NB decides to postpone the second hike to March 2019, NOK is unlikely to suffer as the March hike is still materially under-priced by the market. We look for NOK/SEK to grind higher as the cross resembles perfect monetary divergence.
- The solid economic data, coupled with the stable oil prices, further adds to NOK's attractiveness of an activity currency in the G10 space. EUR/NOK remains undervalued by around 5% based on our medium-term fair value model.

ING forecasts (mkt fwd)	**1M** 9.40 (9.46)	**3M** 9.30 (9.48)	**6M** 9.25 (9.52)	**12M** 9.20 (9.60)

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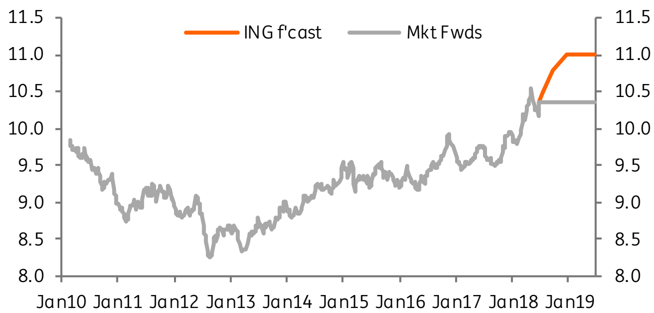
EUR/SEK

Very vulnerable to global trade tensions **Current spot: 10.35**



Source: Bloomberg, ING

- We look for higher EUR/SEK as rising global trade tensions (US threatening a second round of tariffs on China and auto tariffs potentially hitting Sweden's auto and auto-part exports) are negative for a low liquidity currency such as the SEK.
- Importantly, following the positioning-driven correction in EUR/SEK lower since early May, EUR/SEK no longer exhibits a significant risk premium. This in turn provides the scope for further SEK weakness this summer.
- The Swedish Democrats' desire for an EU referendum is also SEK negative. The Democrats are now the strongest party based on the latest polls. We continue to hold our non-consensus year-end forecast of EUR/SEK 11.00.

ING forecasts (mkt fwd)	**1M** 10.50 (10.35)	**3M** 10.80 (10.35)	**6M** 11.00 (10.35)	**12M** 11.00 (10.35)

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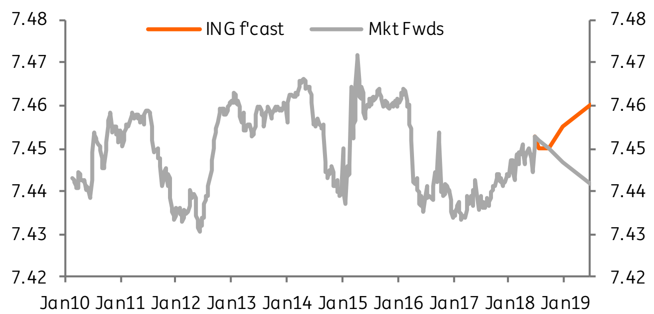
EUR/DKK

The DN mimicking the ECB **Current spot: 7.453**



Source: Bloomberg, ING

- EUR/DKK briefly dipped at end of May/ beginning of June in response to the Italian politics. But safe haven demand for the DKK was rather short-lived, with the cross now back above the 7.4500 level.
- With the ECB striking a more dovish tone in relation to its interest rate forward guidance, the ECB-mimicking DN is likely to keep interest rates unchanged for at least until summer next year. Our current baseline see the first ECB hike Sep 2019.
- With EUR/DKK still below the central rate of 7.46038, there is indeed no pressing need for the central bank to adjust its current policy stance. We look for EUR/DKK to trade round the 7.4500 level in coming months.

ING forecasts (mkt fwd)	**1M** 7.45 (7.452)	**3M** 7.45 (7.450)	**6M** 7.46 (7.447)	**12M** 7.46 (7.441)

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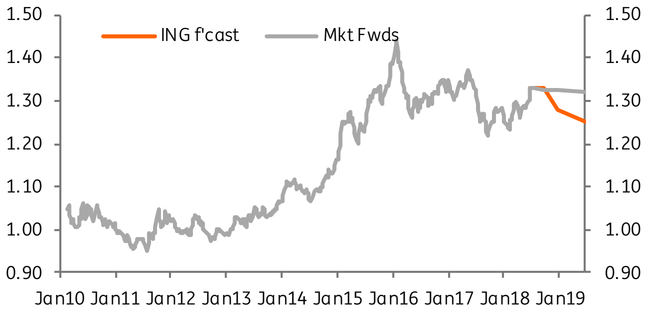
USD/CAD

July BoC hike may provide some temporary support **Current spot: 1.329**



Source: Bloomberg, ING

- The BoC looks on course to hike rates 25bp to 1.50% at the 11 July meeting. An important input to the story will be the BoC business outlook survey released on 29 June. Signs that business respondents are still upbeat about sales, investment and employment prospects will be important for the BoC in determining to what degree protectionism has dented prospects.
- NAFTA negotiations remain on-going despite Trump's very public fall-out with the Canadian PM at the G7 meeting. The benign interpretation is Trump's bluster before a deal is reached.
- If Trump doesn't back down & auto import tariffs are threatened more broadly – not just EU - $/CAD could trade 1.35/37.

ING forecasts (mkt fwd)	**1M** 1.33 (1.33)	**3M** 1.33 (1.33)	**6M** 1.28 (1.32)	**12M** 1.25 (1.32)

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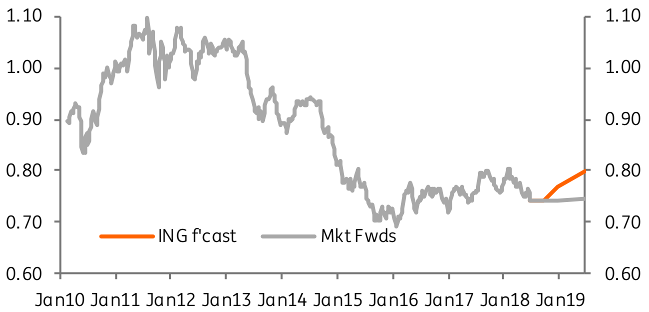
AUD/USD

China challenges **Current spot: 0.74**



Source: Bloomberg, ING

- Having withstood rising US rates relatively well, the AUD has finally succumbed to trade tension – particularly the third round of proposed tariffs against China potentially capturing $200-300bn of Chinese exports to the US. That said commodity prices have held up reasonably well.
- We're still concerned that Trump's trade policy will knock US equities lower at some point this summer. Thus AUD/USD may remain vulnerable until Trump shows he's prepared to negotiate rather than merely raise the stakes in trade wars.
- The RBA remains steady on rates, with the market not pricing the first hike until late 2019. US policy rates may be 100bp higher by then – posing a clear downside risk to our optimistic forecast.

ING forecasts (mkt fwd)	**1M** 0.74 (0.743)	**3M** 0.74 (0.743)	**6M** 0.77 (0.744)	**12M** 0.80 (0.745)

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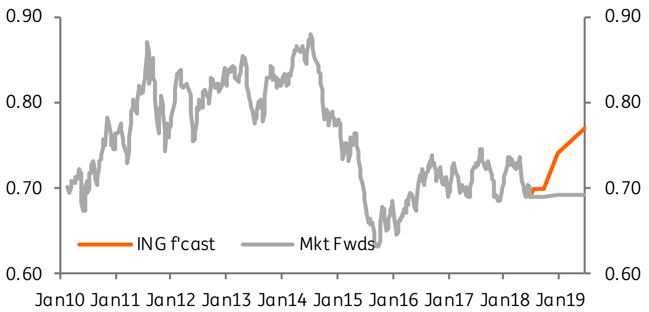
NZD/USD

Struggling for a foothold **Current spot: 0.69**



Source: Bloomberg, ING

- Like the AUD, the NZD has suffered heavily on global trade wars coming home to roost in Asia. If China's export prospects suffer at a time of domestic de-leveraging, the impact on growth can be all the greater. NZ activity figures continue to meander along – but nothing to suggest the RBNZ will be knocked out of its accommodative policy setting.
- The next RBNZ meeting is 28 June. Analysts are unanimous about no change here and instead the 9 August Monetary Policy Report should be an opportunity for a more serious assessment of global trade trends and NZ growth prospects.
- 0.68/69 is medium term support – but may well be tested again.

ING forecasts (mkt fwd)	**1M** 0.70 (0.691)	**3M** 0.70 (0.691)	**6M** 0.74 (0.691)	**12M** 0.77 (0.692)

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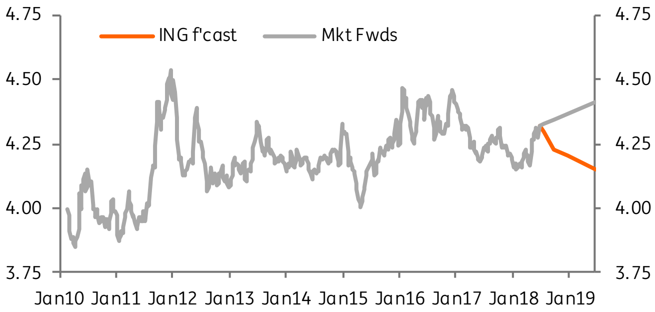
Emerging markets

EUR/PLN

Some resilience to €/US$ slide, least exposed to car tariffs **Current spot: 4.32**



Source: Bloomberg, ING

- In June PLN was range-bound at 4.26-4.34. The PLN usually serves as a CEE high beta FX, but demonstrated resilience vs CEE FX, especially vs HUF. The strong position of POLGB's and better activity data in 2Q18 helped.
- MinFin still runs a central budget surplus and a high cash buffer, letting them limit supply. POLGB's performed well alongside Bunds disregarding EM negative sentiment and EZ periphery jitters.
- Activity data for May shows Polish economic resilience to the Eurozone soft patch and a drop of leading indices. We upgrade our 2Q18 GDP forecast to 5% YoY vs 4.6% YoY seen before.
- Trump tariff threats to Eurozone auto sector are CEE FX negative, but Poland looks least exposed due to its diversified export base.

ING forecasts (mkt fwd)	**1M** 4.30 (4.33)	**3M** 4.23 (4.34)	**6M** 4.20 (4.37)	**12M** 4.15 (4.41)

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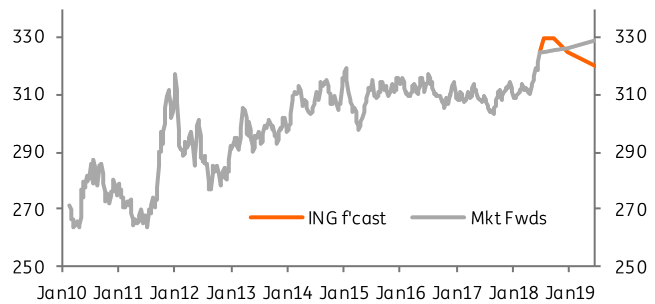
EUR/HUF

The NBH policy still too loose to stabilize HUF **Current spot: 324.9**



Source: Bloomberg, ING

- We revised our EUR/HUF forecast higher and expect the cross to break 330 within the next month. The recent change in the NBH stance (the shift from the ultra-dovish to a dovish stance) is insufficient to stabilize the currency, in our view.
- This is because we doubt that monetary conditions will become as less loose as the market is currently expecting. For reference, the market is pricing 3-m Bubor at 1.85% by end 2019. This makes HUF vulnerable as more seems to be priced in than NBH is willing to deliver at this point , in our view.
- We see EUR/HUF 330 as the pain threshold (due to subsequent pro-inflationary risks) for the NBH to react with more meaningful tightening, but EUR/HUF needs to get there first.

ING forecasts (mkt fwd)	**1M** 330.00 (325.0)	**3M** 330.00 (325.5)	**6M** 325.00 (326.5)	**12M** 320.00 (328.8)

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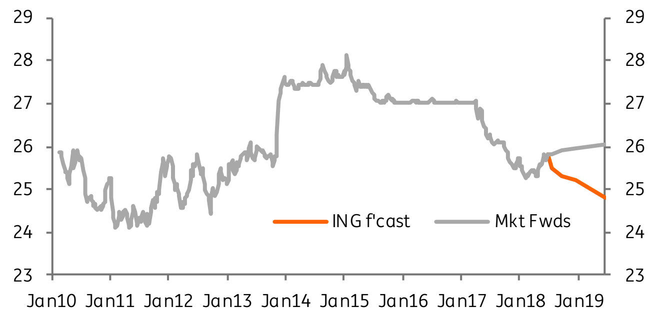
EUR/CZK

CNB to struggle to push EUR/CZK bellow 25.00 this year **Current spot: 25.82**



Source: Bloomberg, ING

- We expect the CNB to deliver a 25bp hike in June given the significantly weaker CZK and pro-inflationary risks stemming from strong wage dynamics.
- Yet, we don't look for a material CZK strength as the June hike is priced in with a higher than 50% probability while the external environment remains challenging for CEE FX.
- Given the challenging risk environment, the one way long CZK positioning and the already non-negligible degree of tightening priced in (around 40bp of hikes priced in by the year-end) the CNB will struggle to push EUR/CZK below 25.00 this year, let alone to the 24.60 level expected by the CNB's own forecast.

ING forecasts (mkt fwd)	**1M** 25.50 (25.84)	**3M** 25.30 (25.88)	**6M** 25.20 (25.97)	**12M** 24.80 (26.03)

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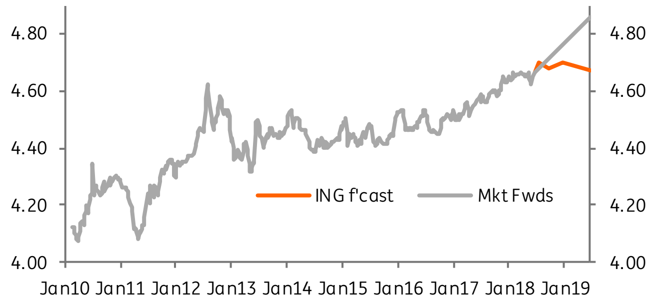
EUR/RON

Higher probability of political turmoil

Current spot: 4.66



Source: Bloomberg, ING

- Tensions between the president and ruling coalition are close to boiling over. Historically the NBR has allowed higher volatility and sharper RON weakness in such episodes.
- Otherwise the EUR/RON has failed to break higher as official offers prevented the currency pair testing its all-time highs. With the liquidity surplus drying up after NBR FX interventions (c.EUR1.5bn in May) and upcoming dividend payments, we could see a liquidity deficit for July. Hence better RON carry.
- NBR is uncomfortable with RON depreciation (over 3-3.5% this year) due to high FX pass-through, where inflation is seen running above target for whole year. The NBR governor has highlighted the importance of "identifying the adequate interest rate differential" in a dovish twist. We see flat rates for rest of 18.

ING forecasts (mkt fwd)	**1M** 4.70 (4.68)	**3M** 4.68 (4.71)	**6M** 4.70 (4.76)	**12M** 4.67 (4.86)

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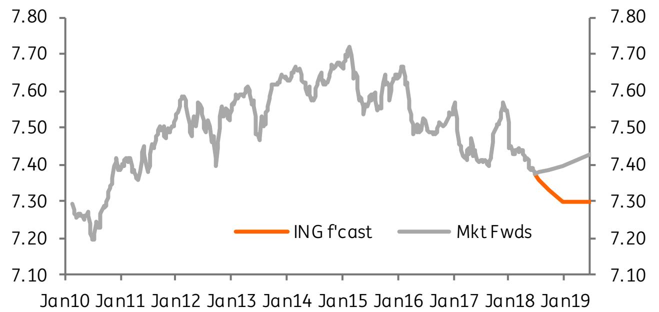
EUR/HRK

Heavy seasonal inflows to support HRK

Current spot: 7.37



Source: Bloomberg, ING

- On 10-May, the CNB bought EUR320.5m in a very large FX intervention. As the bulk of tourism related inflows are yet to come, we could see an active CNB this summer, but gradually allowing for kuna appreciation.
- The strategy for adopting the euro suggest that the government is comfortable with the average exchange rate for EUR/HRK since 2001 of 7.45 as a likely central parity rate. Still, given the C/A surplus, we might see HRK appreciation pressures.
- With the long-awaited Agrokor deal reached, some uncertainty related to economic growth should be priced-out. Furthermore, some fiscal impulse is planned for this year, targeting a budget deficit of -0.5% of GDP, after a surplus of 0.8% of GDP in 2017.

ING forecasts (mkt fwd)	**1M** 7.36 (7.38)	**3M** 7.33 (7.39)	**6M** 7.30 (7.40)	**12M** 7.30 (7.43)

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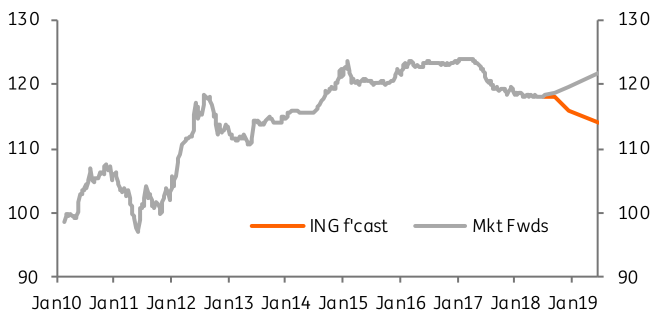
EUR/RSD

Tightly managed, RSD backed by debt inflows

Current spot: 118.1



Source: Bloomberg, ING

- The NBS continued to intervene to curb RSD appreciation. Dinar strengthening pressures stem from stronger macroeconomic fundamentals and "considerable increase of non-residents investment in dinar securities" (NBS May Inf. Report).
- The NBS is tightly managing EUR/RSD and 118.00 seems to be the line in the sand for now. Better than expected economic growth at the start of the year and fiscal easing from 1.2% of GDP surplus in 2017 to a -0.7% of GDP budget deficit this year might convince NBS that gradual dinar appreciation will not hurt growth
- Positives also worth mentioning, are the new non-financing IMF agreement & resumption of the political dialogue with Kosovo.

ING forecasts (mkt fwd)	**1M** 118.00 (118.2)	**3M** 118.00 (118.8)	**6M** 116.00 (119.7)	**12M** 114.00 (121.6)

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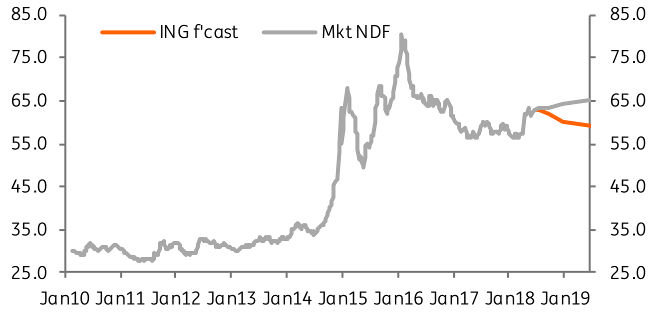
USD/RUB

CBR throws cat amongst the pigeons **Current spot: 62.98**



Source: Bloomberg, ING

- As if the RUB did not have enough to worry about already, the proposed VAT hike and its impact on the CBR easing cycle hit the OFZ market hard and took the RUB with it – the RUB having a reasonably positive correlation with OFZs since March. However, OFZs have over-reacted & market pricing of rate hikes rather than cuts looks excessive. CBR better explaining their move as a pause rather than reversal in the easing cycle could help OFZ and RUB.
- RUB beta with oil is lower after Min Fin's budget rule last year, thus OPEC may not be so negative now. 6% implied yields help RUB too, with real yields in the 3.5% area – good by EM standards
- 61/62 looks medium term fair value – but strong $ hurts short tm.

ING forecasts (mkt fwd)	**1M** 63.00 (63.18)	**3M** 62.00 (63.58)	**6M** 60.00 (64.17)	**12M** 59.00 (65.34)

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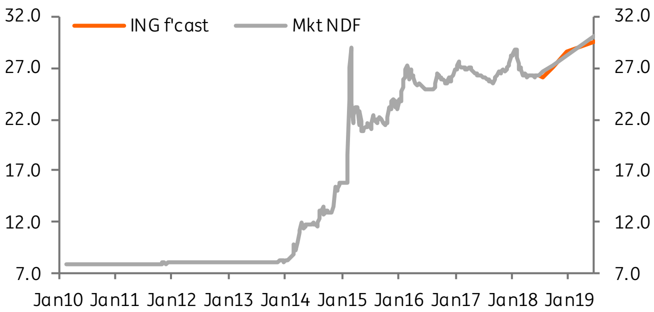
USD/UAH

Toes to the fire **Current spot: 26.17**



Source: Bloomberg, ING

- It's getting close to crunch time for Ukraine and the IMF. Agreement on the anti-corruption court (HACC) will be paramount. So far the government is still trying to water down the bill (insert late amendments) which the IMF rejects. It won't be enough for the bill to be passed – we'll have to get formal acknowledgement from the IMF that the bill is good enough.
- After growing near 3.5% this year, Ukraine GDP is expected to slow to the 2% area in 2019/20 as fiscal stimulus fades and 2018 rate hikes take hold. Inflation will still be running at 10-12%.
- The release of IMF funds could trigger a brief UAH rally – but high inflation erodes UAH strength and trend to 28/29 to continue.

ING forecasts (mkt fwd)	**1M** 26.00 (26.56)	**3M** 27.00 (27.28)	**6M** 28.50 (28.27)	**12M** 29.50 (30.16)

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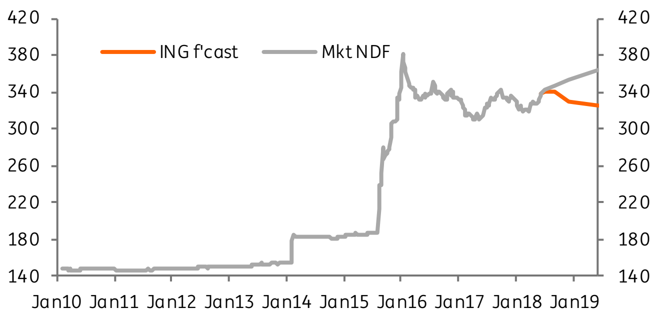
USD/KZT

KZT/RUB managed tightly, focus on Euroclear activity **Current spot: 339.4**



Source: Bloomberg, ING

- KZT has struggled to dis-associate from the RUB sell-off, leaving KZT/RUB trading in a narrow range but USD/KZT trading up near 340. A return to the 315 levels will be more difficult now. That said Kazakhstan is picking up its oil production (to a new peak of 1.92mn bpd) and may benefit from any OPEC+ decision to allow production levels to rise further later this year.
- Real interest rates remain near 2.5/3% and should prove attractive should the dollar/US rate cycle peak – which we tentatively expect later this year.
- Also look out for Kazakhstan's first Euroclearable Tenge bond issue – which is a clear desire from local authorities.

ING forecasts (mkt fwd)	**1M** 340.00 (341.8)	**3M** 340.00 (346.4)	**6M** 330.00 (352.6)	**12M** 325.00 (364.0)

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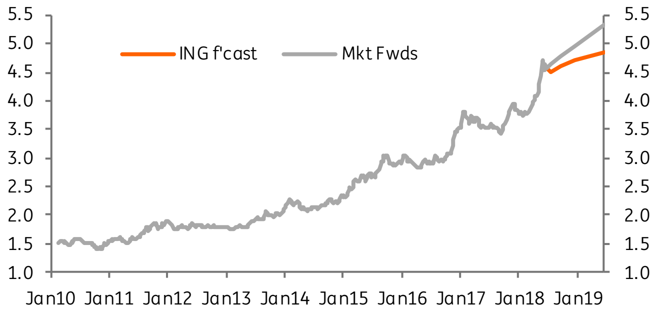
USD/TRY

Election results on the focus **Current spot: 4.59**



Source: Bloomberg, ING

- Policy outlook after the elections matters now for the markets given concerns about President Erdogan's recent statements that he intends to take more responsibility for monetary policy after the elections. So any policy re-calibration without focusing on Turkey's macro vulnerabilities and especially inflation ahead of local elections in March 2019 may leave Turkish assets under pressure again.
- Further market movements in the period ahead will likely be determined by the new economy management team and the policy mix. A continuation of the loose fiscal stance to revive growth may weigh on the markets again on the back of already elevated inflation prospects and surging government bond yields.

ING forecasts (mkt fwd)	**1M** 4.50 (4.64)	**3M** 4.60 (4.76)	**6M** 4.70 (4.95)	**12M** 4.85 (5.33)

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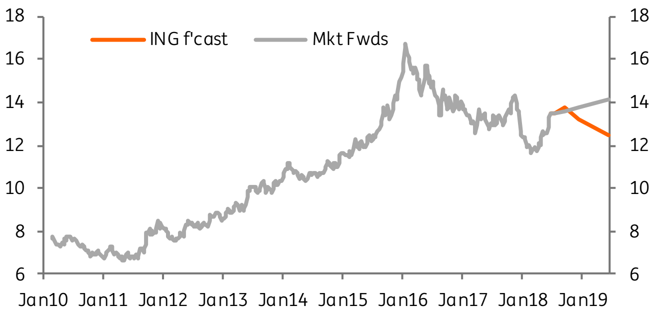
USD/ZAR

Internal and external challenges **Current spot: 13.46**



Source: Bloomberg, ING

- Having withstood the strong dollar in May, ZAR resistance crumbled in June allowing USD/ZAR close to 14.00. Externally the strong dollar, higher US rates and higher energy prices all posed challenges to an economy running what we learned was close to a 5% of GDP current account deficit in 1Q18. Foreigners sold ZAR debt heavily & thus ZAR has been exposed by portfolio flows.
- Domestically challenges have risen too. Consumer and business confidence levels have been high, but Eskom wage negotiations are going badly resulting in rolling black-outs. The wage deal and Eskom price hikes pose an upside risk to inflation & will hurt debt.
- A strong dollar over coming months risks 14.00 being tested.

ING forecasts (mkt fwd)	**1M** 13.50 (13.51)	**3M** 13.75 (13.62)	**6M** 13.25 (13.78)	**12M** 12.50 (14.09)

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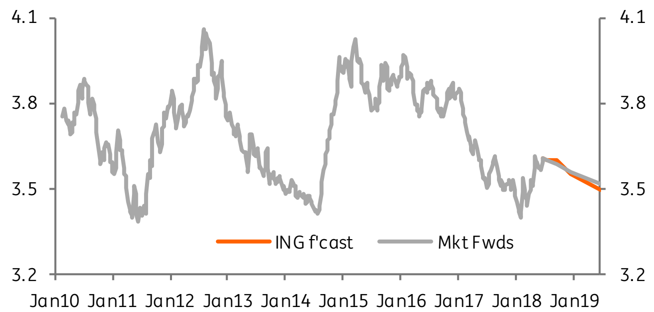
USD/ILS

Notable deterioration in the trade balance **Current spot: 3.61**



Source: Bloomberg, ING

- We've been a little surprised that $/ILS traded up through 3.60 again, although we have severely under-estimated dollar strength over the last two months. It's hard to call a top in the dollar right now, thus $/ILS could push onto 3.65 this summer.
- Israel GDP grew at an annualised rate of 4.5% in 1Q18. Inflation is very slowly rising and arguably the weaker ILS will give the BoI greater confidence that the 2% CPI target can be hit. That said, long term inflation expectations are still only 1.9% and BoI may want to see 2.5-3.0% before raising rates.
- We're a little worried by the sharp deterioration in the trade balance. Strong demand is sucking in imports – an ILS negative.

ING forecasts (mkt fwd)	**1M** 3.60 (3.60)	**3M** 3.60 (3.58)	**6M** 3.55 (3.56)	**12M** 3.50 (3.51)

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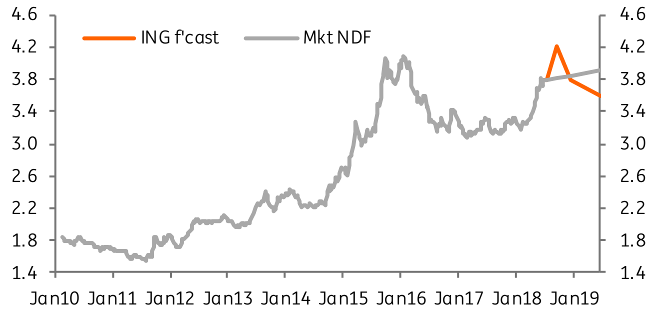
LATAM

USD/BRL

Buying time with aggressive FX intervention **Current spot: 3.79**



Source: Bloomberg, ING

- Aggressive FX intervention should keep the BRL relatively stable for now. But, as intervention ammunition is depleted while political and fiscal risks remain high, it should weaken. Rate hikes are unlikely to be considered until the BRL weakens beyond 4.0.
- Continued demand for FX hedges should keep the BRL with a weakening bias. Following the intervention-related rally, political risks is only partly incorporated into asset prices. And so long as prospects for electing a market-friendly candidate in October remain dim, the BRL equilibrium level should be closer to 4-4.2.
- FX intervention has been effective, but it is a limited resource. At the recent pace, that resource could end (or become ineffective) much sooner than the four months until the October elections.

ING forecasts (NDF)	**1M** 3.80 (3.79)	**3M** 4.20 (3.81)	**6M** 3.80 (3.84)	**12M** 3.60 (3.91)

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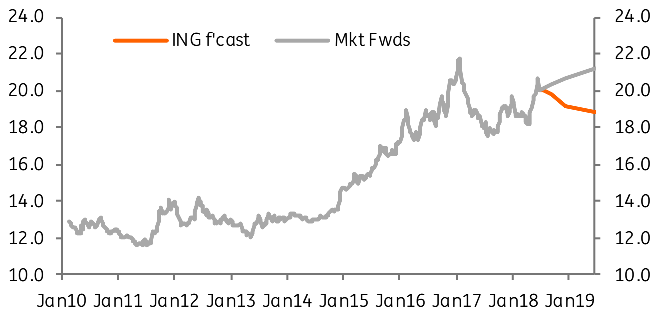
USD/MXN

Waiting for AMLO **Current spot: 20.06**



Source: Bloomberg, ING

- The balance of risks for Mexican assets has deteriorated, amid rising risk aversion, difficulties in the NAFTA negotiations and apprehension regarding the upcoming July 1 general elections.
- We still consider the risk of a unilateral NAFTA withdrawal by the US to be small. As a result, we expect the elections to be the primary short-term driver for local assets.
- A landslide victory by AMLO is not fully priced, increasing the risk of a post-election selloff. In our base-case, USD/MXN should rise above 21 following the election but only reach 22 in case a super-majority in Congress is within AMLO's grasp. But we expect the selloff to be short-lived. Foreigners would likely add to MXN exposure assuming AMLO opts for more pragmatic rhetoric.

ING forecasts (mkt fwd)	**1M** 20.00 (20.16)	**3M** 19.80 (20.36)	**6M** 19.20 (20.66)	**12M** 18.80 (21.24)

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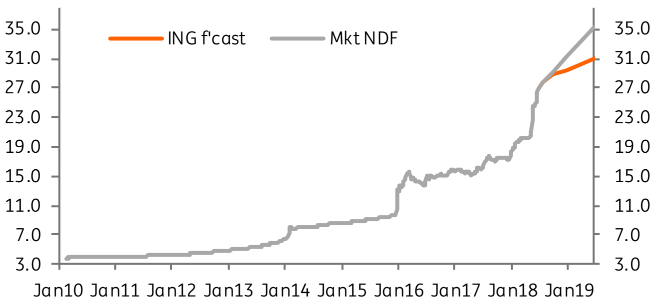
USD/ARS

An unstable calm **Current spot: 27.03**



Source: Bloomberg, ING

- Faced with a severe FX volatility crisis, monetary authorities reacted by turning policy guidance markedly hawkish, with sharp rate increases, fiscal tightening and external IMF assistance.
- As these measures failed to stabilize the ARS the administration resorted to cabinet changes that were well received. A US$7.5bn FX intervention program should help stabilize the ARS but market dynamics remain too unsettled for high-conviction calls. Inclusion into the MSCI EM benchmark should also be ARS-supportive.
- Financial market turmoil added downside to near-term macro trends, with prospects for higher inflation and lower growth. A longer term concern is the damage to Macri's popular support, which created some challenges for his re-election bid next year.

ING forecasts (NDF)	**1M** 27.70 (27.71)	**3M** 28.81 (29.27)	**6M** 29.36 (31.44)	**12M** 31.02 (35.31)

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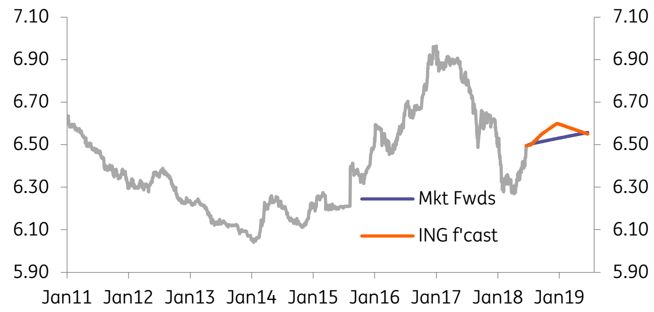
Asia

USD/CNY

Trade tension push yuan weaker **Current spot: 6.4949**



Source: Bloomberg, ING

- A global trade war has started, just as markets should have expected. Based on Trump's rhetoric, the US may impose more tariffs on China, though this will be a long process given that Trump will have to convince US companies of the merits of more tariffs on China, which in turn raises their production costs.
- At the same time US companies will also be affected by China's retaliation, in terms of tariffs and ease of doing business in China. These risks have rocked the markets. Dollar jumped and CNY weakened, nearly to 6.50, our previous forecast for end-2Q18.
- We think escalation of the trade war and political uncertainties in Europe should sustain the strong USD trend and warns of further CNY weakening.

ING forecasts (FWDs)	**1M** 6.5000 (6.5036)	**3M** 6.5500 (6.5143)	**6M** 6.6000 (6.5292)	**12M** 6.5500 (6.5573)

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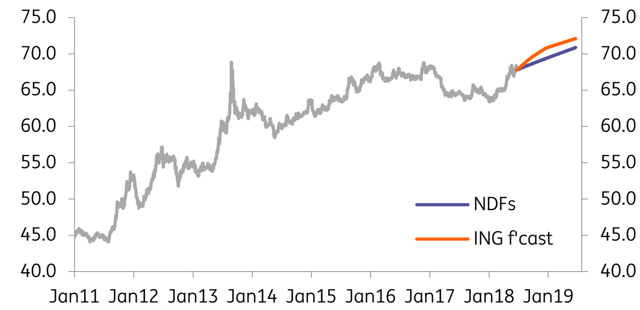
USD/INR

A serial forecast downgrade **Current spot: 67.78**



Source: Bloomberg, ING

- The central bank (RBI) joined counterparts in Indonesia and the Philippines to tighten the monetary policy in support of the currency. Alas, as in other two countries, tightening was of little help and the INR continued to be the Asian underperformer.
- The 25bp rate hike at the June meeting, the first hike since 2014, was a unanimous decision by all six RBI policymakers. Rising inflation expectations was the key factor leading to the decision. 4.9% CPI inflation in May CPI was close to the top of 2-6% target.
- Widening current account deficit, 1.9% of GDP in FY2018 up from 0.6% in FY2017, and political risk in the run up to general elections in 2019 will be other negatives for INR. We expect the RBI hike again in August. We revise our USD/INR forecast higher.

ING forecasts (FWDs)	**1M** 68.30 (68.03)	**3M** 69.50 (68.59)	**6M** 70.80 (69.37)	**12M** 72.10 (70.86)

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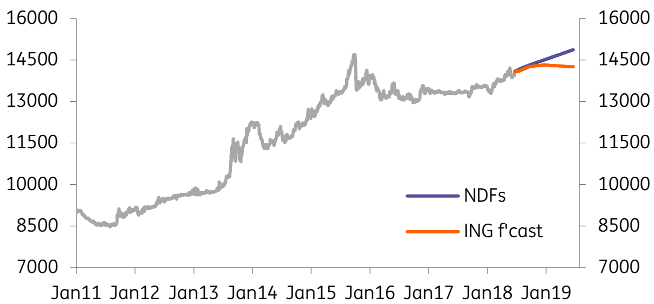
USD/IDR

BI remains in a stabilization mode **Current spot: 14086**



Source: Bloomberg, ING

- Bank Indonesia and the government continue to pursue the path of stabilization to moderate IDR's weakness as a weak currency is seen to unsettle the economy and the financial sector.
- IDR had lost 3.4% against USD until the central bank response kicked in with a 25bp policy rate hike on 17 May. In an emergency policy meeting under new Governor Perry Warjiyo BI raised the policy rate by another 25 bps on 30 May.
- Since early June, IDR has again exhibited weakness following the second Fed rate hike and EM risk off sentiment due to heightened US-China trade concerns. We expect BI to tighten further at the next meeting on 28 June, and then again in 4Q18.

ING forecasts (NDFs)	**1M** 14100 (14169)	**3M** 14260 (14314)	**6M** 14320 (14499)	**12M** 14250 (14870)

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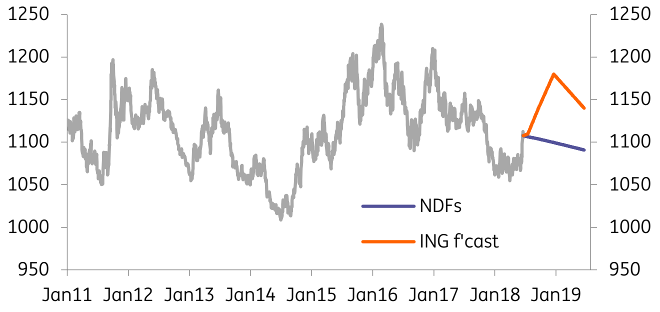
USD/KRW

Give peace a chance

Current spot: 1108



Source: Bloomberg, ING

- Pictures of Kim Jong-Un and Donald Trump meeting in Singapore to discuss denuclearisation had, rather predictably, almost no effect on the Korean won. If the threat of war was not enough to cause a sell-off, then the promise of a lasting peace ought not to have much impact either. It didn't.
- Instead, the KRW has been soft for most of the month, making it the worst Asian currency in the region month to date.
- The reason for this is that Korea is seen as the most exposed floating currency in the region to the US-China trade dispute. The biggest boost for the KRW right now, would be a cessation of hostilities, not with Pyongyang, but Washington.

ING forecasts (NDFs)	**1M** 1110 (1106)	**3M** 1140 (1104)	**6M** 1180 (1100)	**12M** 1140 (1091)

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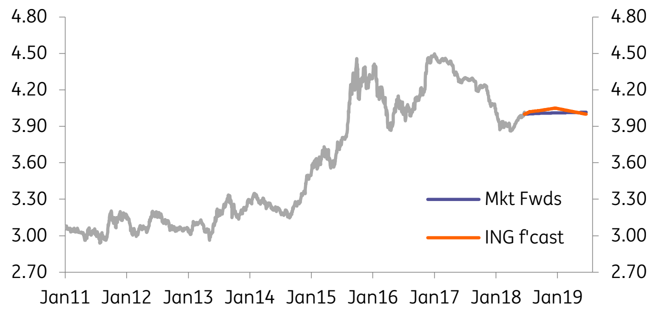
USD/MYR

MYR retains its status of Asia's outperformer

Current spot: 3.9995



Source: Bloomberg, ING

- Consistent with our forecast in response to the surprise result of the general election a month ago, the USD/MYR rose to the 4.00 level in one month. But the pair still retains its status of an Asian outperformer, thanks to rising oil prices and widening trade surplus – trends likely to continue in the period ahead.
- Strong domestic demand and expansionary fiscal policy will support GDP growth, while move by the new government to cut the Goods and Services Tax to zero from 6% will contain inflation. The external payments position remains comfortable.
- Low inflation, steady strong growth, and a resilient MYR prevent the need for Malaysia's central bank (BNM) to follow the Fed policy tightening. We expect no more BNM policy move this year.

ING forecasts (FWDs)	**1M** 4.0200 (4.0024)	**3M** 4.0300 (4.0069)	**6M** 4.0500 (4.0104)	**12M** 4.0000 (4.0157)

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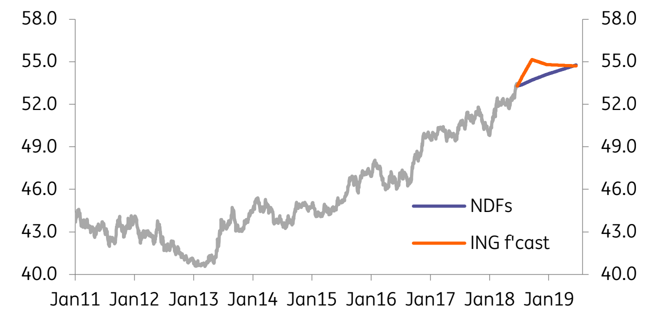
USD/PHP

Central bank is still in a hawkish mood

Current spot: 53.29



Source: Bloomberg, ING

- PHP is the worst performing Asian currency (year-to-date) with about 7% depreciation. A weak export sector, worsening trade and current account deficits, deteriorating external balances, enhanced deficit spending, strong domestic economy, and negative global developments pressure this currency.
- Fears of currency weakness destabilizing inflation expectations underpin the BSP's hawkish bias after its second consecutive policy interest rate hike at the June meeting. We expect further tightening this year and next.
- The economy should be able to weather the monetary tightening cycle and maintain a close to 7% pace of GDP growth for the next few years, in our view.

ING forecasts (NDFs)	**1M** 53.90 (53.38)	**3M** 55.15 (53.71)	**6M** 54.80 (54.11)	**12M** 54.70 (54.77)

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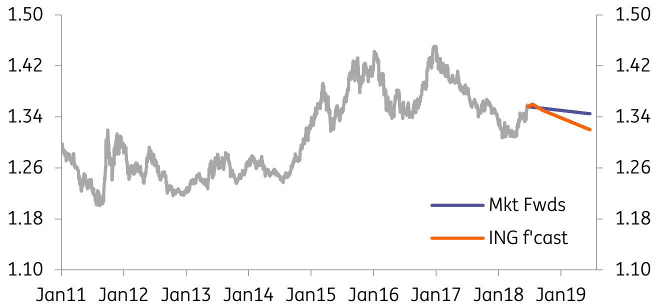
USD/SGD

Lacking inspiration **Current spot: 1.3559**



Source: Bloomberg, ING

- The recent spectacle of the Trump-Kim summit will no doubt appear on the positive side of the GDP growth ledger before too long, and the free publicity of the meeting may also provide a more medium term tourism dividend for the island. But apart from that, the newsflow has been mediocre.
- Positives include the latest NODX figures, though this was again narrowly based, with pharmaceutical growth offsetting electronic weakness. Domestic demand indicators for Singapore have not been too convincing.
- It's hard to see the MAS reversing course on policy after the April tightening, but equally, it's hard to see where the next tightening is coming from.

ING forecasts (FWDs)	**1M** 1.3600 (1.3551)	**3M** 1.3500 (1.3533)	**6M** 1.3400 (1.3506)	**12M** 1.3200 (1.3449)

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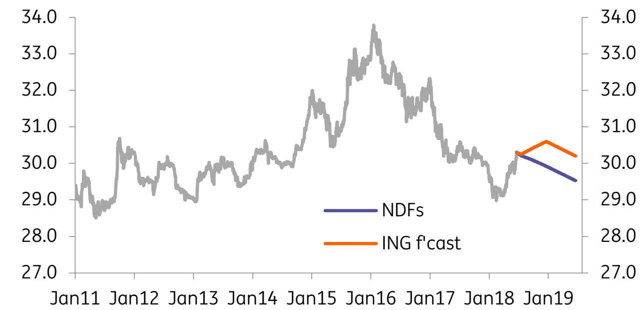
USD/TWD

A little policy support for the TWD **Current spot: 30.29**



Source: Bloomberg, ING

- With a possible negative effect on the electronic industry from Mainland China-US trade war, previous capital inflows into Taiwan's stock market may swing into outflows in 2H18. With this and strong USD we expect TWD to weaken further in the rest of the year.
- Taiwan's central bank (CBC) left the policy on hold at the quarterly meeting in June. At 1.375% the CBC policy rate is already at a low level of 1.375%. Therefore, the room for further easing is limited should the economy get hit from the trade war.
- We revise our USDTWD forecast for end-2018 to 30.60 from 29.40 before, implying a 2.8% annual depreciation this year.

ING forecasts (NDFs)	**1M** 30.25 (30.21)	**3M** 30.40 (30.11)	**6M** 30.60 (29.92)	**12M** 30.20 (29.53)

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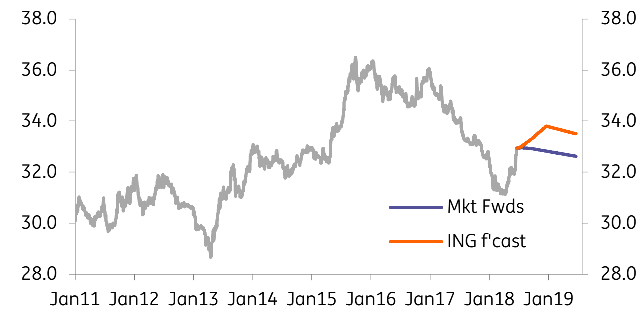
USD/THB

From outperformer to underperformer **Current spot: 32.94**



Source: Bloomberg, ING

- The lack of interest rate policy support and deteriorating external trade balance look set to swing the fortune for the THB from Asia's outperformer in 2017 to underperformer this year. THB's 2.9% month-to-date depreciation against USD in June makes it the worst month in three years.
- We do not view THB weakness as significant enough to prompt a policy response. The central bank (BoT) has stepped up its dovish stance recently and is less worried about currency weakness. The BoT left policy on hold at the June meeting.
- Falling trade and current account surpluses are in the main negative for the THB going forward. The $1.9bn YTD trade surplus in May was $3.8bn lower than a year ago level.

ING forecasts (FWDs)	**1M** 33.00 (32.96)	**3M** 33.30 (32.92)	**6M** 33.80 (32.82)	**12M** 33.50 (32.62)

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ING foreign exchange forecasts

EUR cross rates	Spot	1M	3M	6M	12M	USD cross rates	Spot	1M	3M	6M	12M
Developed FX											
EUR/USD	1.17	1.17	1.17	1.23	1.30						
EUR/JPY	127.7	127.53	125.19	129.15	133.90	USD/JPY	109.57	109	107	105	103
EUR/GBP	0.88	0.88	0.88	0.86	0.83	GBP/USD	1.32	1.33	1.33	1.43	1.57
EUR/CHF	1.15	1.16	1.16	1.20	1.23	USD/CHF	0.99	0.99	0.99	0.98	0.95
EUR/NOK	9.46	9.40	9.30	9.25	9.20	USD/NOK	8.12	8.03	7.95	7.52	7.08
EUR/SEK	10.35	10.50	10.80	11.00	11.00	USD/SEK	8.89	8.97	9.23	8.94	8.46
EUR/DKK	7.453	7.450	7.450	7.455	7.460	USD/DKK	6.40	6.37	6.37	6.06	5.74
EUR/CAD	1.55	1.56	1.56	1.57	1.63	USD/CAD	1.327	1.33	1.33	1.28	1.25
EUR/AUD	1.57	1.58	1.58	1.60	1.63	AUD/USD	0.74	0.74	0.74	0.77	0.80
EUR/NZD	1.69	1.67	1.67	1.66	1.69	NZD/USD	0.69	0.70	0.70	0.74	0.77
EMEA											
EUR/PLN	4.32	4.30	4.23	4.20	4.15	USD/PLN	3.71	3.68	3.62	3.41	3.19
EUR/HUF	324.7	330.00	330.00	325.00	320.00	USD/HUF	279.1	282	282	264	246
EUR/CZK	25.82	25.5	25.3	25.2	24.8	USD/CZK	22.18	21.8	21.6	20.5	19.1
EUR/RON	4.66	4.70	4.68	4.70	4.67	USD/RON	4.01	4.02	4.00	3.82	3.59
EUR/HRK	7.38	7.36	7.33	7.30	7.30	USD/HRK	6.33	6.29	6.26	5.93	5.62
EUR/RSD	118.1	118.0	118.0	116.0	114.0	USD/RSD	101.5	100.9	100.9	94.3	87.7
EUR/RUB	73.30	73.7	72.5	73.8	76.7	USD/RUB	62.89	63.0	62.0	60.0	59.0
EUR/UAH	30.49	30.4	31.6	35.1	38.4	USD/UAH	26.17	26.00	27.00	28.50	29.50
EUR/KZT	395.0	397.8	397.8	405.9	422.5	USD/KZT	339.3	340	340	330	325
EUR/TRY	5.34	5.27	5.38	5.78	6.31	USD/TRY	4.59	4.50	4.60	4.70	4.85
EUR/ZAR	15.67	15.8	16.1	16.3	16.3	USD/ZAR	13.45	13.50	13.75	13.25	12.50
EUR/ILS	4.20	4.21	4.21	4.37	4.55	USD/ILS	3.61	3.60	3.60	3.55	3.50
LATAM											
EUR/BRL	4.41	4.45	4.91	4.67	4.68	USD/BRL	3.79	3.80	4.20	3.80	3.60
EUR/MXN	23.35	23.4	23.2	23.6	24.4	USD/MXN	20.05	20.00	19.80	19.20	18.80
EUR/CLP	742.25	720	716	750	803	USD/CLP	636.71	615	612	610	618
EUR/ARS	31.51	32.41	33.71	36.12	40.33	USD/ARS	27.03	27.70	28.81	29.36	31.02
EUR/COP	3397.00	3253	3218	3383	3640	USD/COP	2914.28	2780	2750	2750	2800
EUR/PEN	3.81	3.80	3.79	3.97	4.17	USD/PEN	3.27	3.25	3.24	3.23	3.21
Asia											
EUR/CNY	7.60	7.61	7.66	8.12	8.52	USD/CNY	6.53	6.50	6.55	6.60	6.55
EUR/HKD	9.13	9.18	9.16	9.62	10.14	USD/HKD	7.85	7.85	7.83	7.82	7.80
EUR/IDR	16471	16497	16684	17614	18525	USD/IDR	14153	14100	14260	14320	14250
EUR/INR	79.31	79.9	81.3	87.1	93.7	USD/INR	68.11	68.30	69.50	70.80	72.10
EUR/KRW	1300.23	1299	1334	1451	1482	USD/KRW	1117.15	1110	1140	1180	1140
EUR/MYR	4.67	4.70	4.72	4.98	5.20	USD/MYR	4.02	4.02	4.03	4.05	4.00
EUR/PHP	62.19	63.1	64.5	67.4	71.1	USD/PHP	53.45	53.9	55.15	54.8	54.7
EUR/SGD	1.59	1.59	1.58	1.65	1.72	USD/SGD	1.36	1.36	1.35	1.34	1.32
EUR/TWD	35.37	35.4	35.6	37.6	39.3	USD/TWD	30.39	30.3	30.4	30.6	30.2
EUR/THB	38.37	38.6	39.0	41.6	43.6	USD/THB	32.95	33.0	33.3	33.8	33.5

Source: Bloomberg, ING

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